

NATIONAL OUTLOOK

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AUGUST 13, 2021

Office of State Budget Director

Control Scenario

(Probability – 50%)

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- GDP growth rises to 6.7% in FY2022 and 3.0% in FY2023
 - ▣ Previous pre-pandemic peak reached in FY2021Q4
 - ▣ COVID-19 vaccination rates outpace spread of new strains
 - ▣ Previous stimulus efforts and \$1.9 trillion American Recovery Plan included in baseline. Forecast does not include \$4 trillion American Jobs Plan or American Family Plan
- Consumer spending surges 6.4% in FY2022 and 4.1% in FY2023, as spending on services continues to increase
- Federal Reserve maintains Federal Funds rates near 0%
- Increases in Brent oil prices, as oil expected to be \$72/bbl by FY2022Q1, easing to \$65 by FY2023Q2

Control Scenario Transitory Assumptions

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- Several assumptions in the control scenario assumed to be transitory
 - Inventory building – Disrupted supply chains have lead to record low ratio of inventories to sales, and rebuilding inventories will significantly add to GDP over first two quarters of FY2022
 - Inflation – Recent inflation pressures expected to slow, or even reverse, as supply chains recover and labor force participation increases
 - Motor Vehicles – Resolving of supply chain issues will allow production levels to return to normal levels, resulting in decrease in PCE price index for vehicles, vehicle parts, and used vehicles
 - Federal Fiscal Policy –
 - Enhanced unemployment ends for all states in September, 2021; half of the states have already withdrawn from emergency unemployment programs
 - ARP expanded child tax credit and IRS is sending half of the credit in monthly installments through December, 2021

Optimistic Scenario

(Probability – 30%)

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- GDP growth increases to 8.3% in FY2022 and 3.4% in FY2023
 - Consumer response to recent \$1.9 trillion in stimulus exceeds baseline forecast
 - Widespread vaccination and adherence to safety guidelines results in significantly quicker decline in new COVID cases and deaths
- Employment increases by 5.1% in FY2022
- Unemployment rate down to 4.0% by FY2022Q4
- Real Consumer Spending increase by 8.2% in FY2022
- Unit sales of light vehicles continues robust growth of 6.5% in FY2022
- Global economy recovers from COVID impacts more quickly than baseline forecast

Pessimistic Scenario

(Probability – 20%)

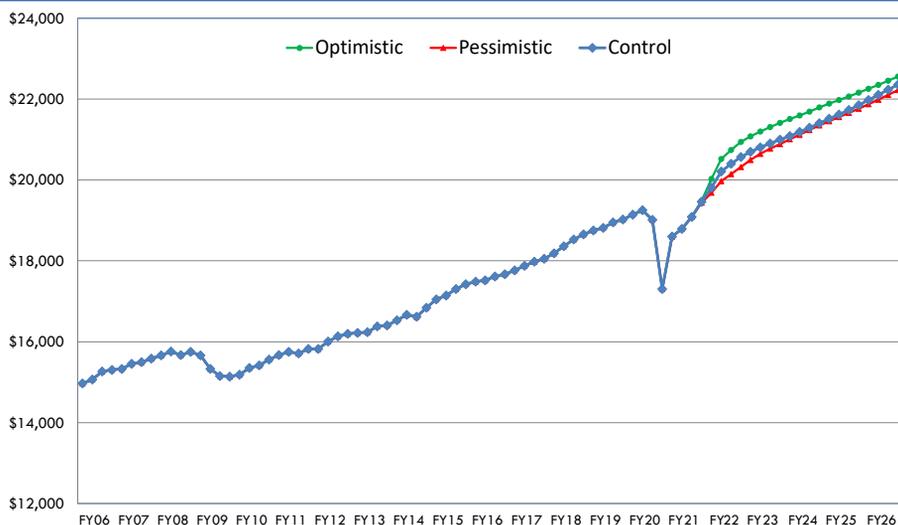
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- GDP growth rises to 5.5% in FY2022 and 3.3% in FY2023
 - ▣ Pace of vaccinations slows delaying “herd immunity”
 - ▣ New, more contagious COVID strains become dominate source of COVID cases, resulting in return of caution by consumers and slower pace of growth and spending
- Consumer spending increases 5.0% in FY2022 and 4.6% in FY2023, as spending is tempered
- Employment increases by 4.1% in FY2022
- Unemployment rate down to 4.8% by FY2022Q4
- Real Consumer Spending increases by 5.0% in FY2022
- Global economy continues to experience setbacks in recovering from COVID-related impacts

Real GDP

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

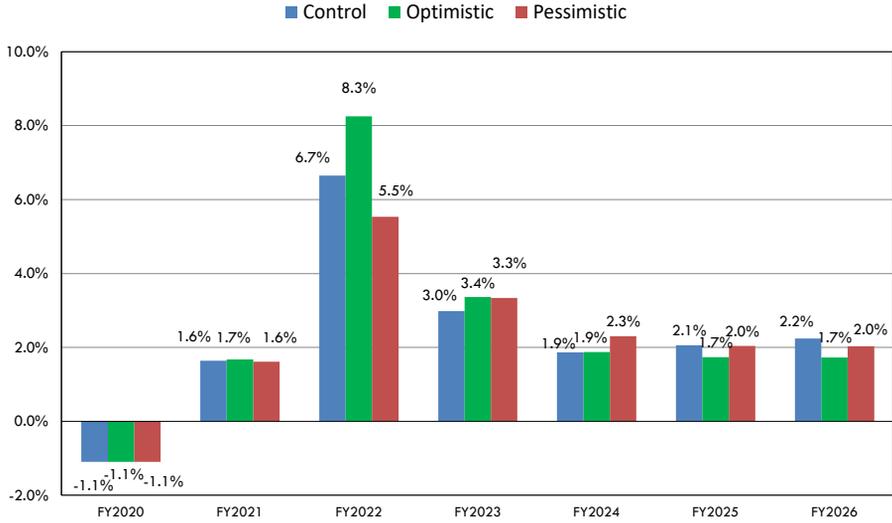
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Real GDP

(IHS Markit, Fiscal Year Growth Rates)

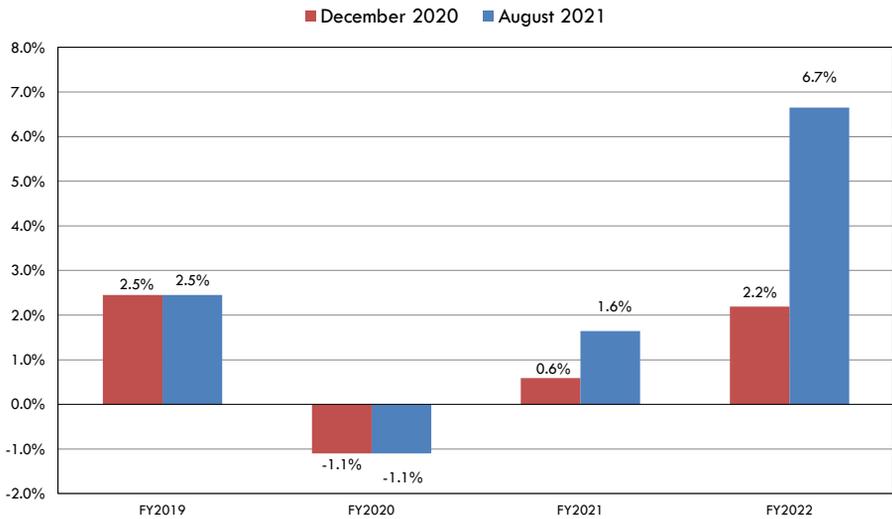
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Real GDP – Control Forecast

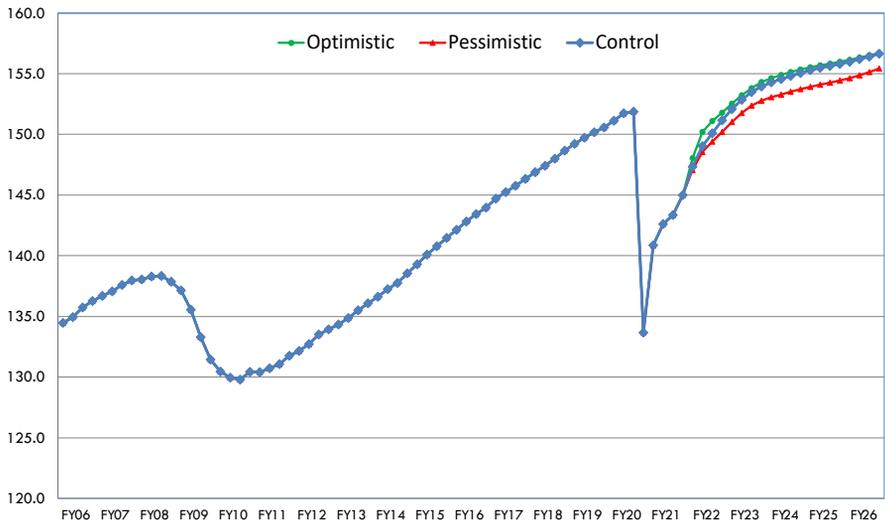
(IHS Markit, Fiscal Year Growth Rates)

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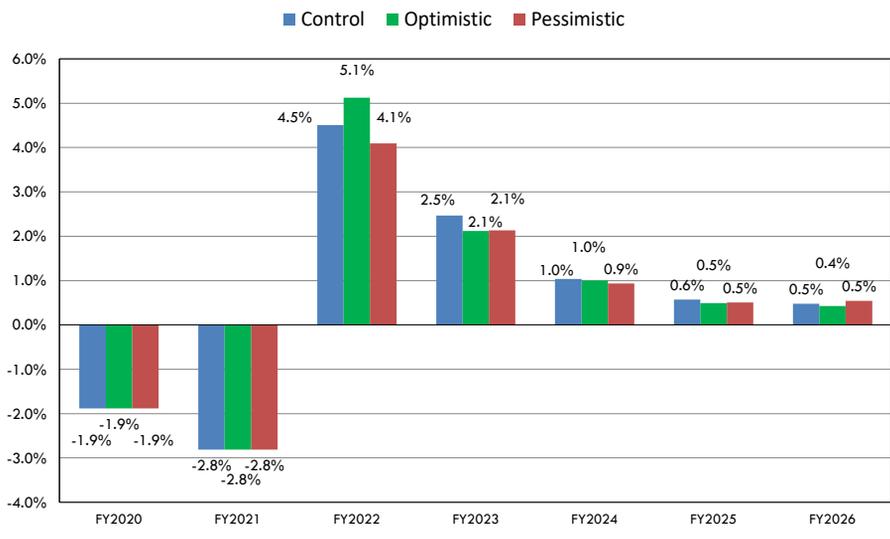
U.S. Employment – Total Non-Farm Payrolls (Millions, BLS)

9



U.S. Employment – Total Non-Farm Payrolls (IHS Markit Forecast, Fiscal Year Growth Rates)

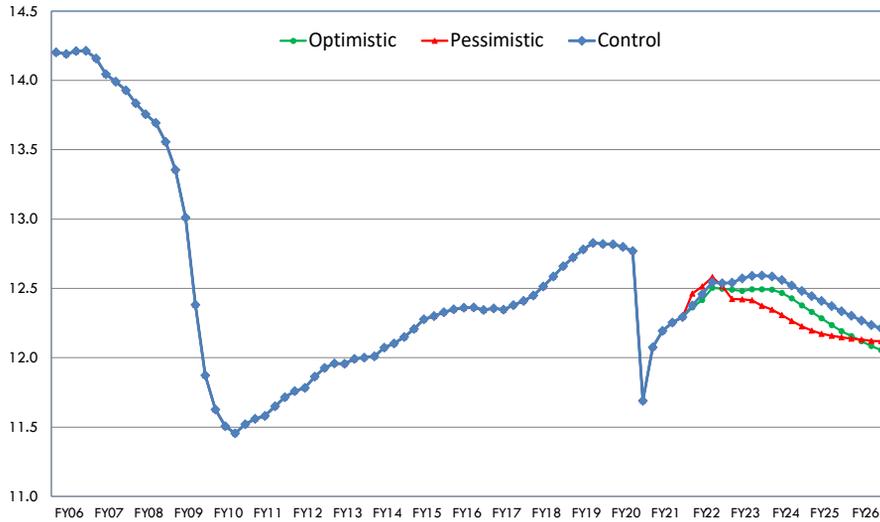
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U.S. Employment – Manufacturing

(Millions, BLS)

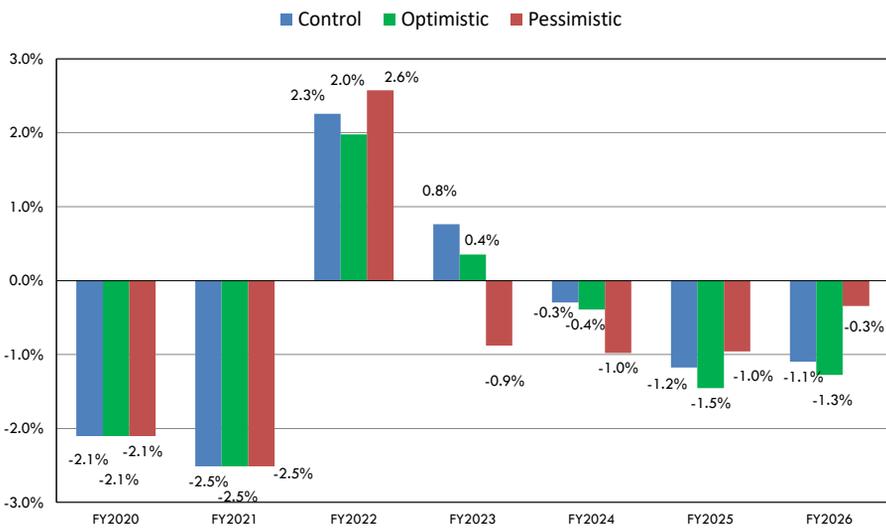
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U.S. Employment – Manufacturing

(IHS Markit Forecast, Fiscal Year Growth Rates)

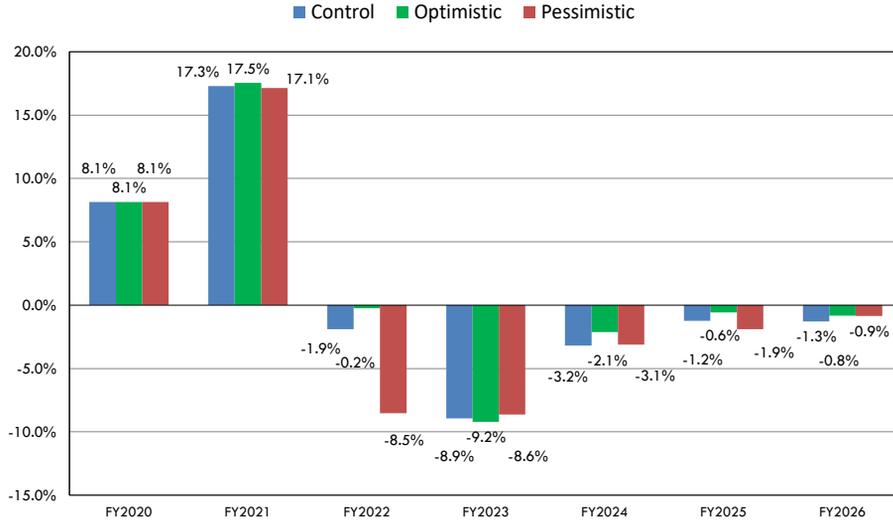
12



Housing Starts

(IHS Markit Forecast, Fiscal Year Growth Rates)

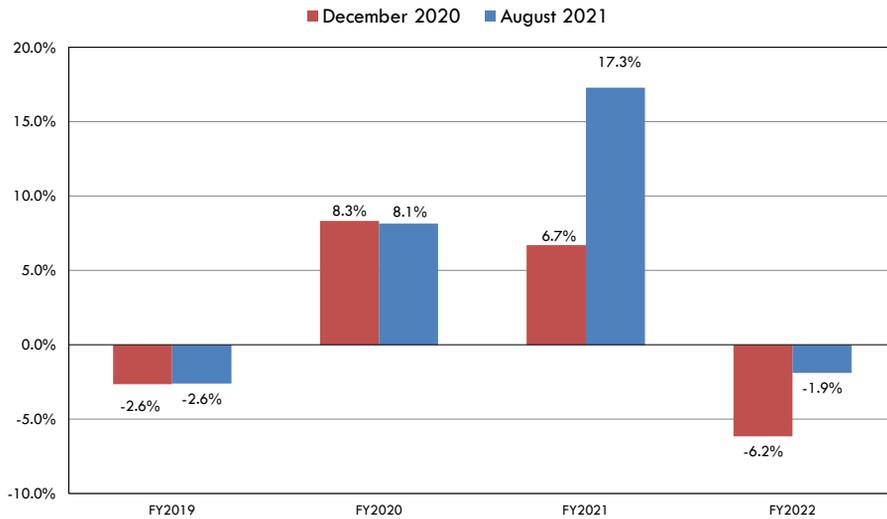
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Housing Starts - Control Forecast

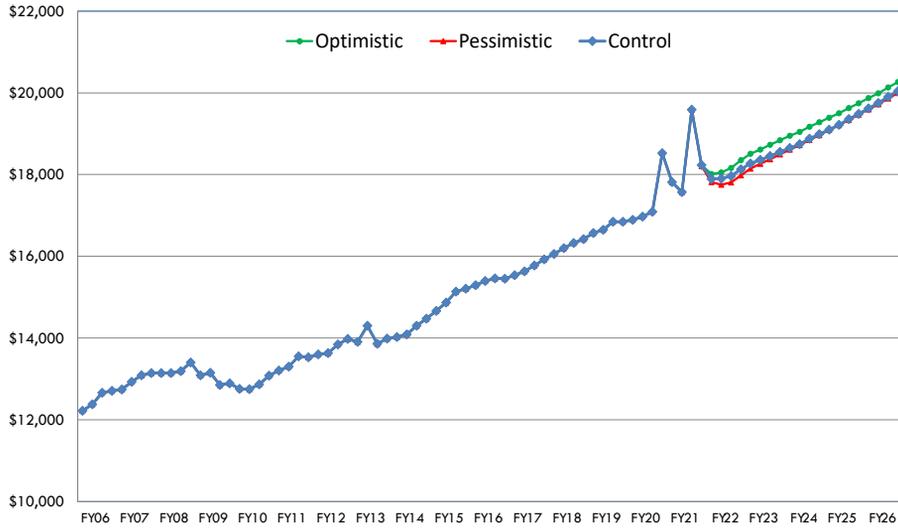
(IHS Markit Forecast, Fiscal Year Growth Rates)

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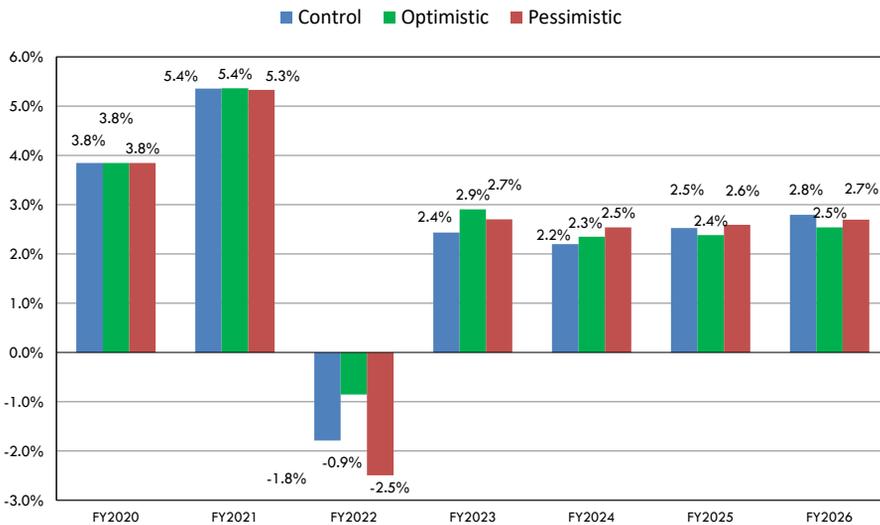
Real Personal Income (Billions of Chained 2012 Dollars, Annual Rate, BEA)

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Real Personal Income (IHS Markit Forecast, Fiscal Year Growth Rates)

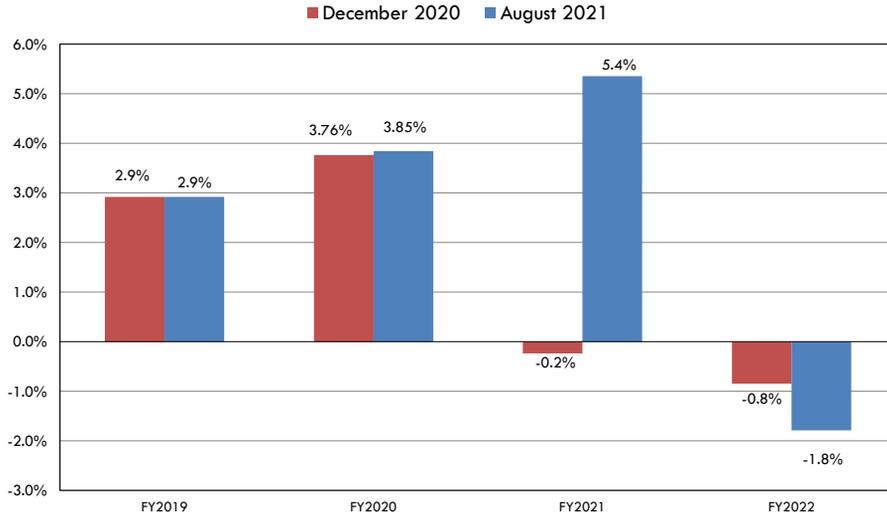
16



Real Personal Income - Control Forecast

(IHS Markit Forecast, Fiscal Year Growth Rates)

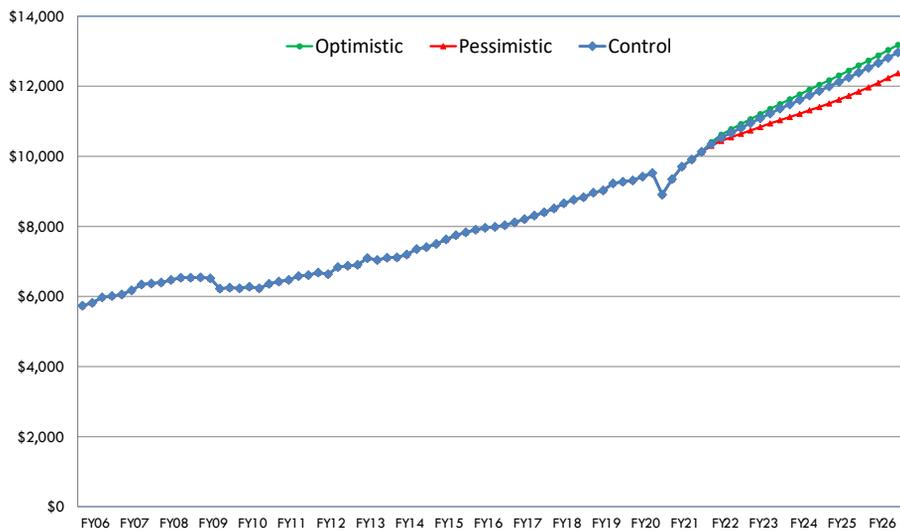
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Wage and Salary Disbursements

(Billions of Dollars, Annual Rate, BEA)

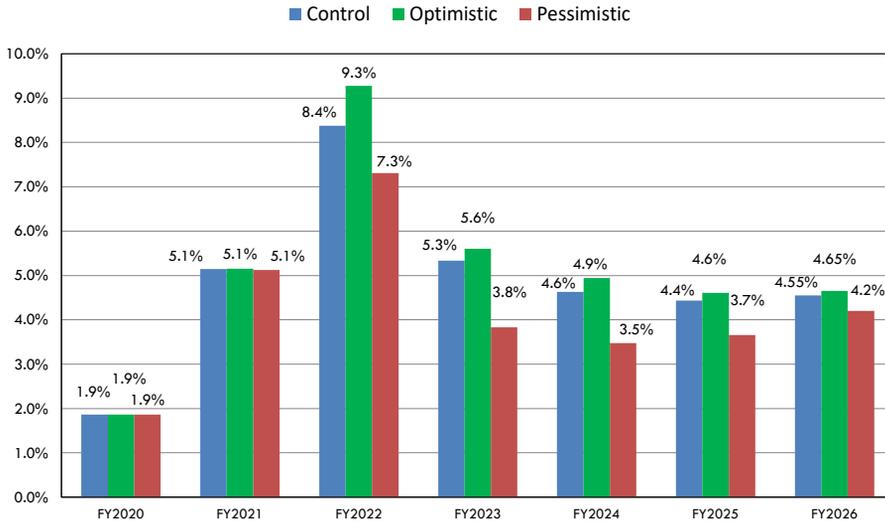
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Wage and Salary Disbursements

(IHS Markit Forecast, Fiscal Year Growth Rates)

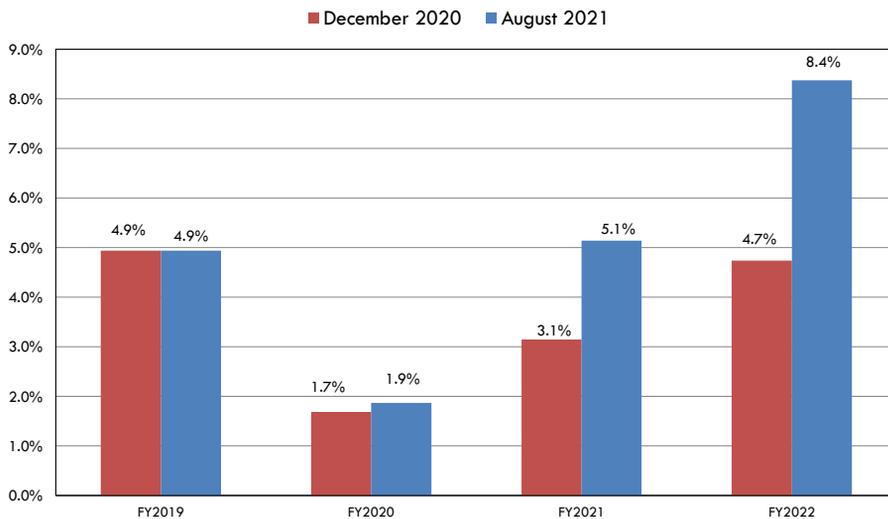
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Wage and Salary Disbursements - Control Forecast

(IHS Markit Forecast, Fiscal Year Growth Rates)

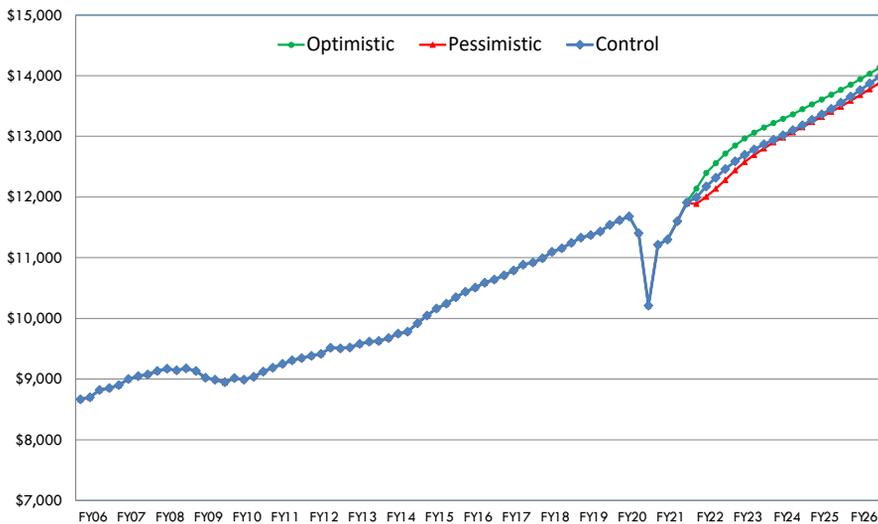
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Real Consumer Spending (Excluding Food and Energy)

(Billions of 2012 Dollars, Annual Rate, BEA)

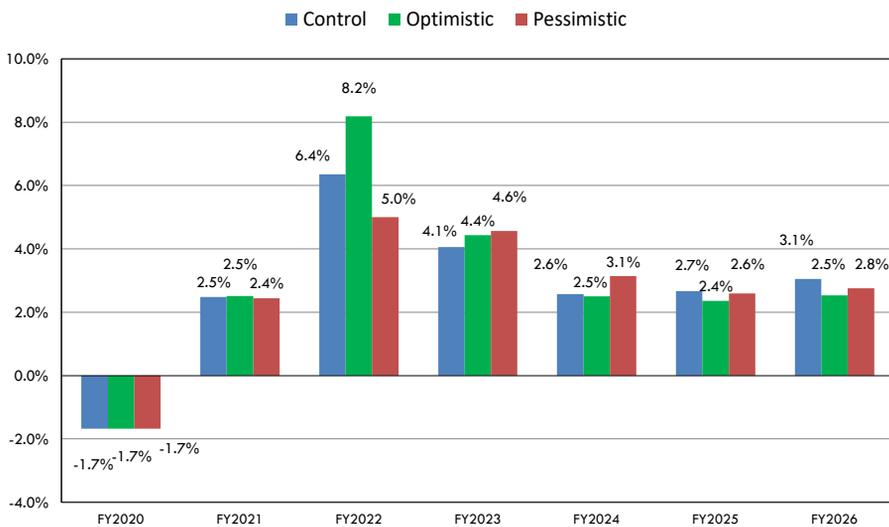
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Real Consumer Spending (Excluding Food and Energy)

(IHS Markit Forecast, Fiscal Year Growth Rates)

22

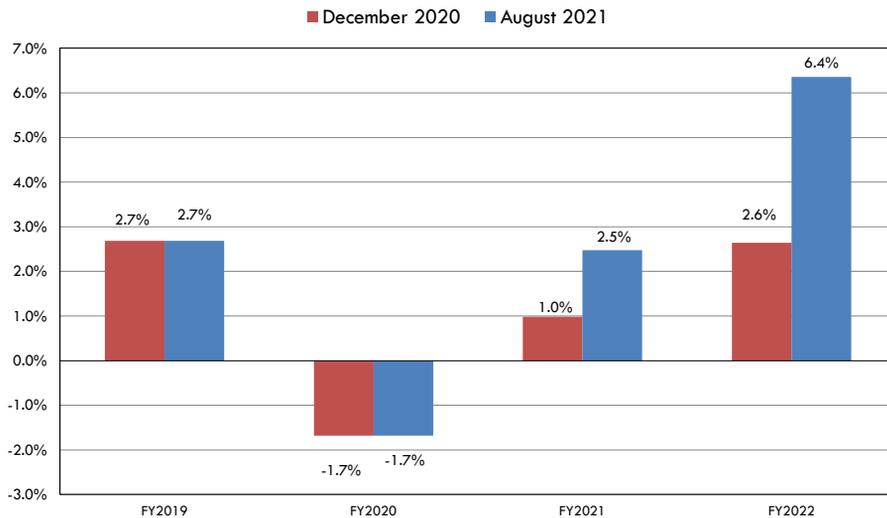


Real Consumer Spending (Excluding Food and Energy)

Control Forecast

(IHS Markit Forecast, Fiscal Year Growth Rates)

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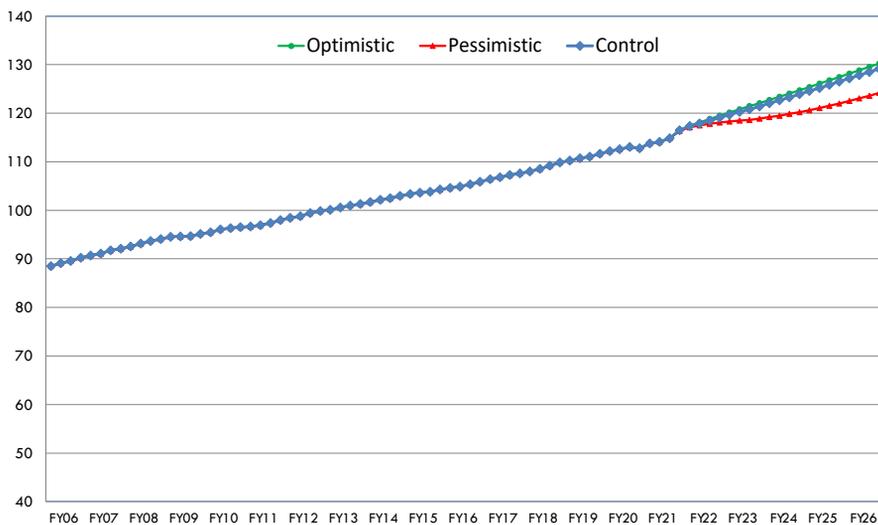


Chained Price Index - Consumer Spending

(Excluding Food and Energy)

(2012 = 100, BEA)

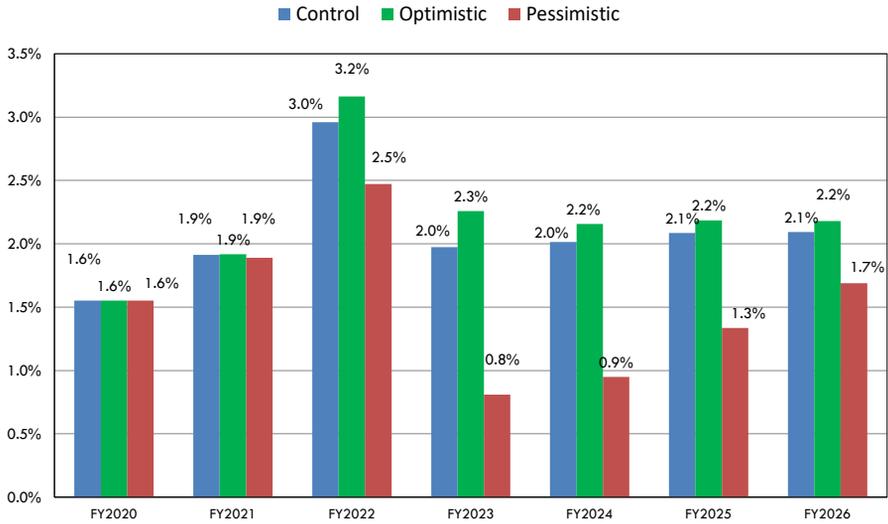
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Chained Price Index - Consumer Spending (Excluding Food and Energy)

(IHS Markit Forecast, Fiscal Year Growth Rates)

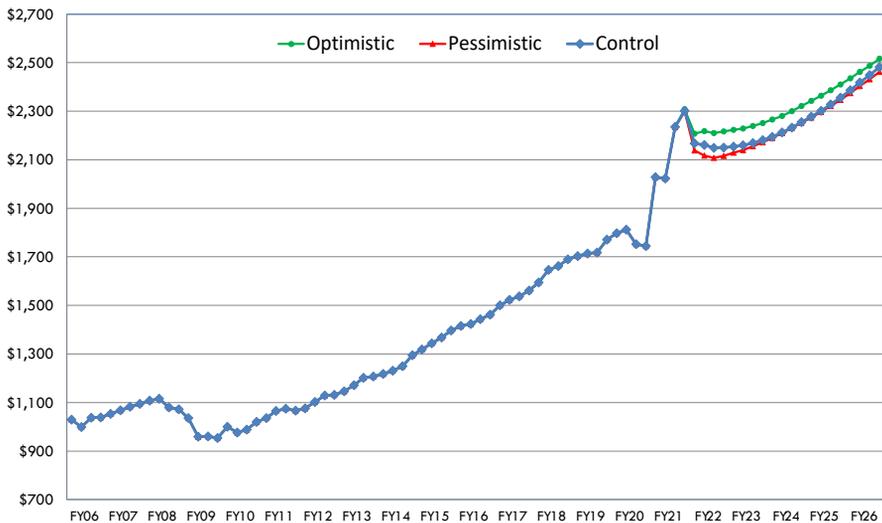
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Real Consumer Spending on Durable Goods

(Billions of 2012 Dollars, Annual Rate, BEA)

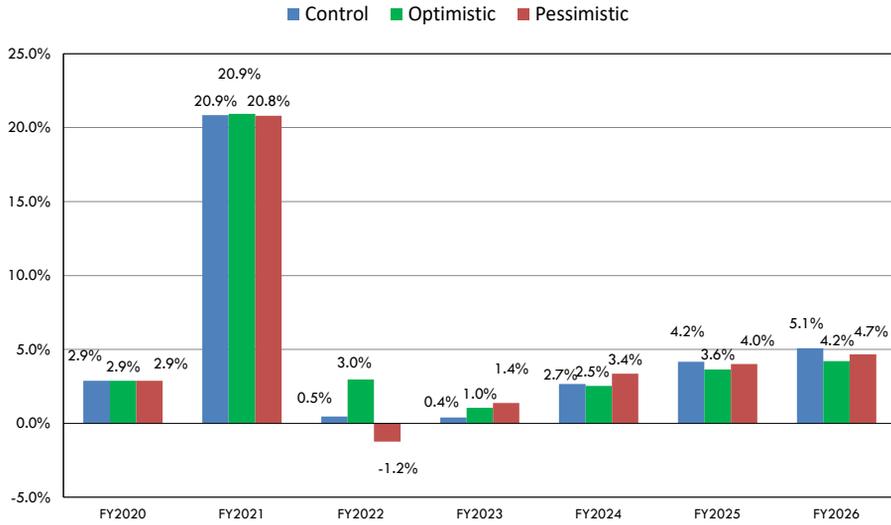
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Real Consumer Spending on Durable Goods

(IHS Markit Forecast, Fiscal Year Growth Rates)

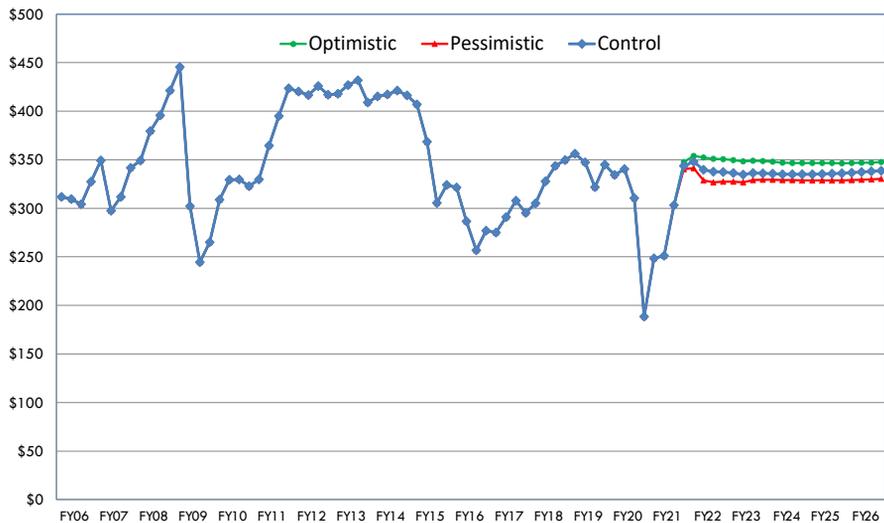
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Nominal Consumption of Gasoline and Oil

(Billions of Dollars, Annual Rate, BEA)

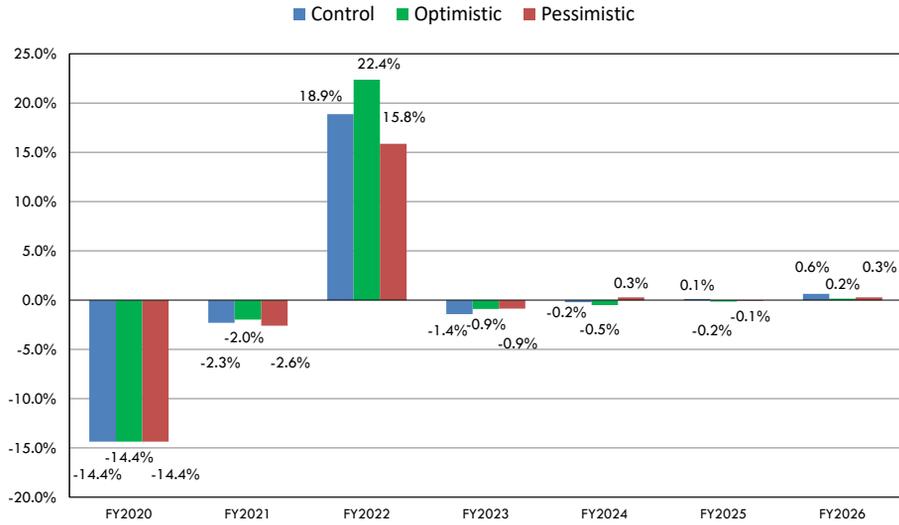
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Nominal Consumption of Gasoline and Oil

(IHS Markit Forecast, Fiscal Year Growth Rates)

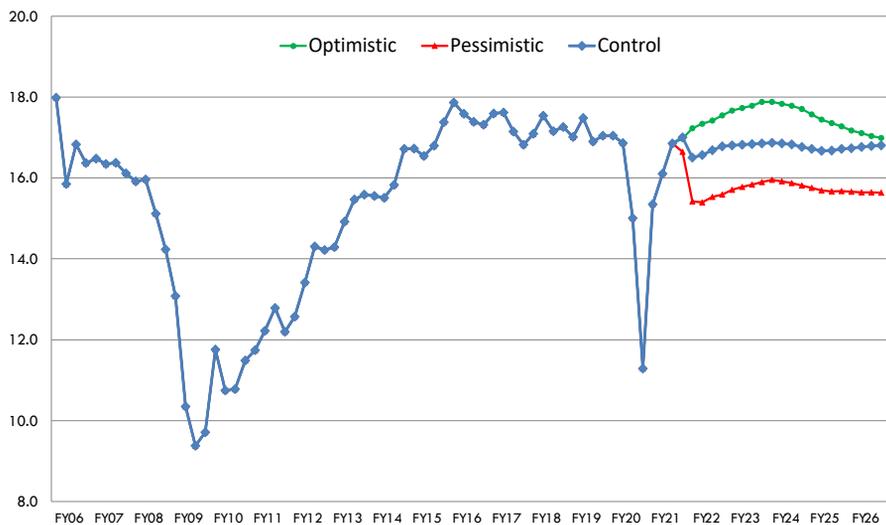
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Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)

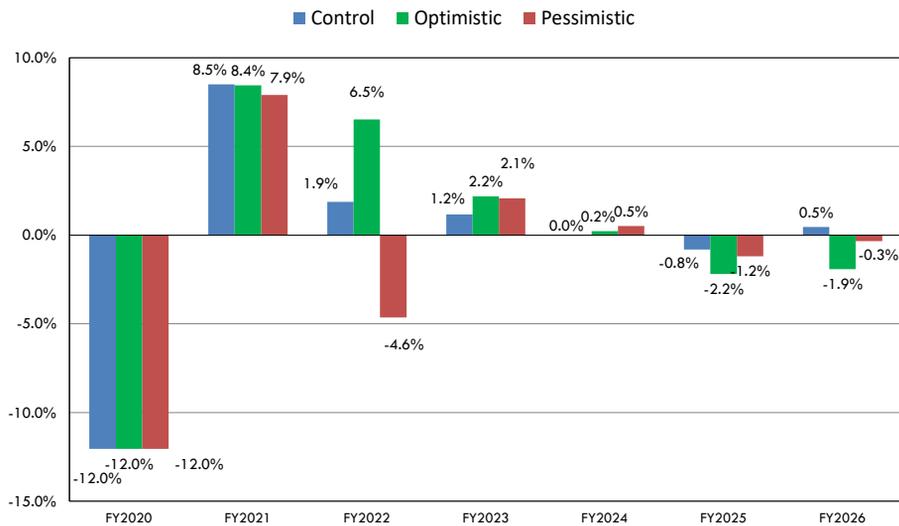
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Unit Sales of New Light Vehicles

(IHS Markit Forecast, Fiscal Year Growth Rates)

31

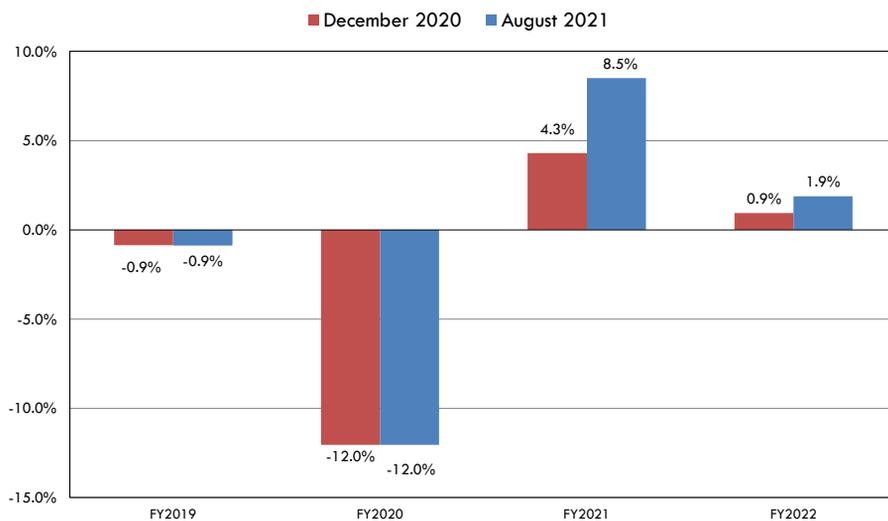


Unit Sales of New Light Vehicles

Control Forecast

(IHS Markit Forecast, Fiscal Year Growth Rates)

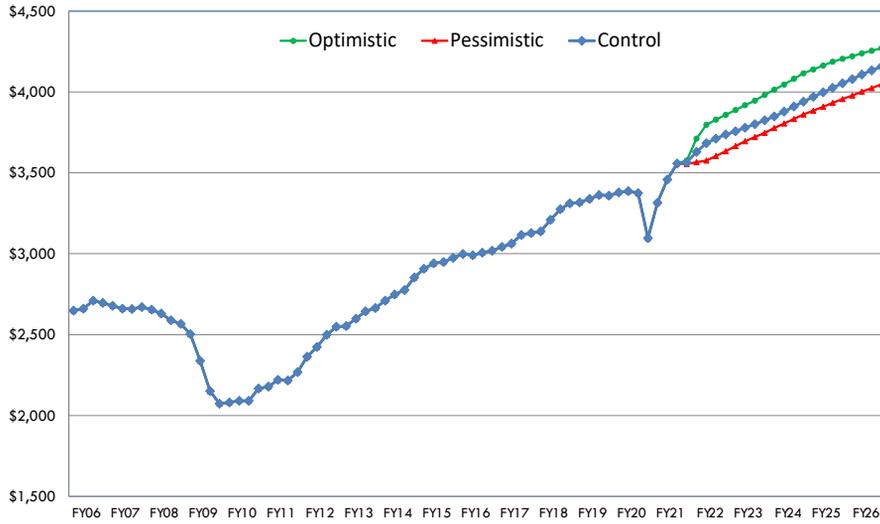
32



Real Gross Private Fixed Investment

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

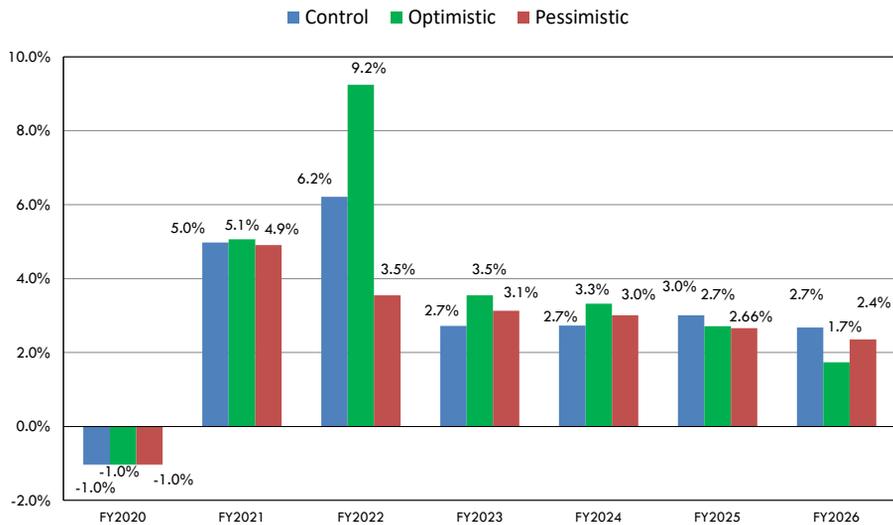
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Real Gross Private Fixed Investment

(IHS Markit Forecast, Fiscal Year Growth Rates)

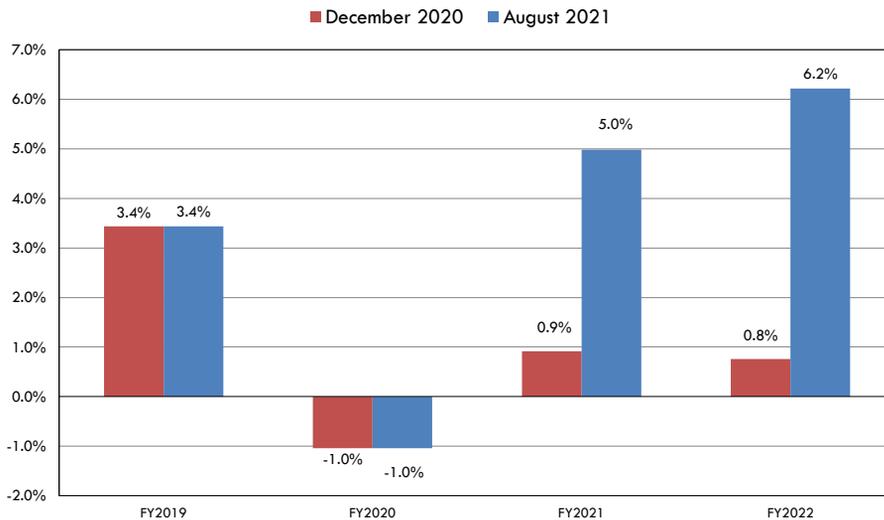
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Real Gross Private Fixed Investment Control Forecast

(IHS Markit Forecast, Fiscal Year Growth Rates)

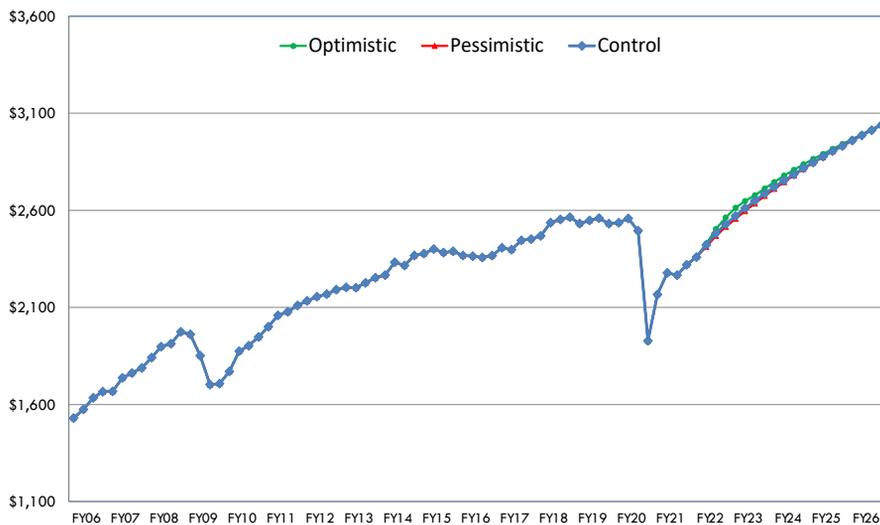
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Real Exports of Goods and Services

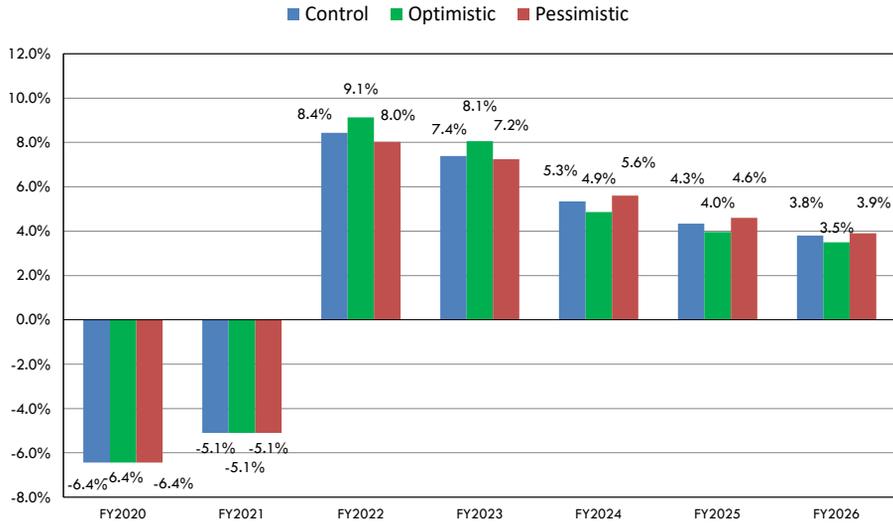
(Billions of Chained 2012 Dollars, Annual Rate, BEA)

36



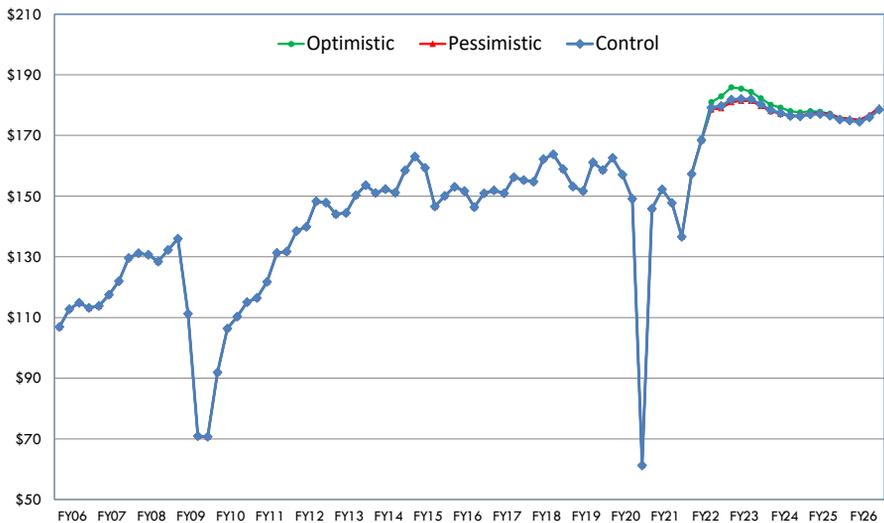
Real Exports of Goods and Services (IHS Markit Forecast, Fiscal Year Growth Rates)

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Real Exports of Motor Vehicles and Parts (Billions of Chained 2012 Dollars, Annual Rate, BEA)

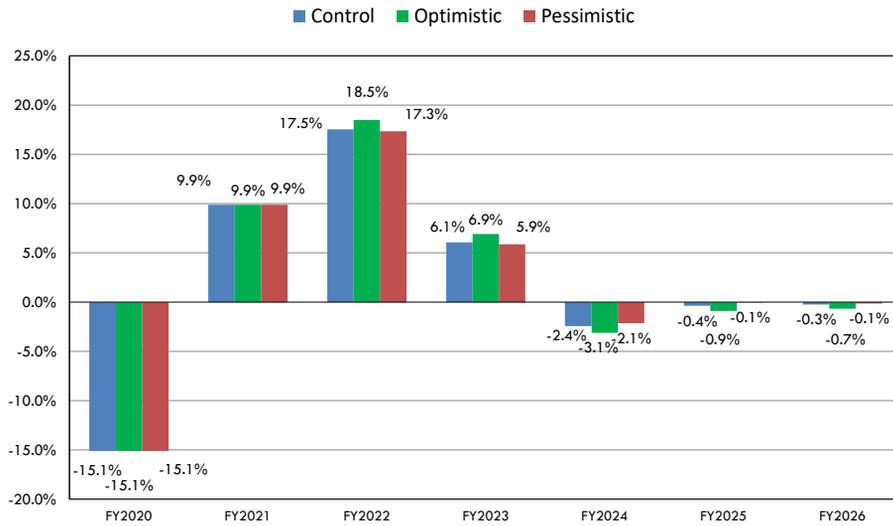
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Real Exports of Motor Vehicles and Parts

(IHS Markit Forecast, Fiscal Year Growth Rates)

39



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KENTUCKY ECONOMIC OUTLOOK

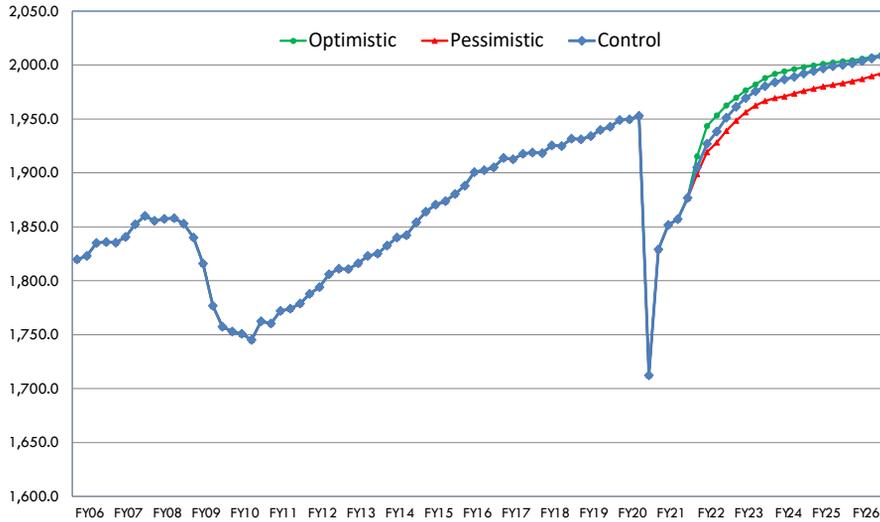
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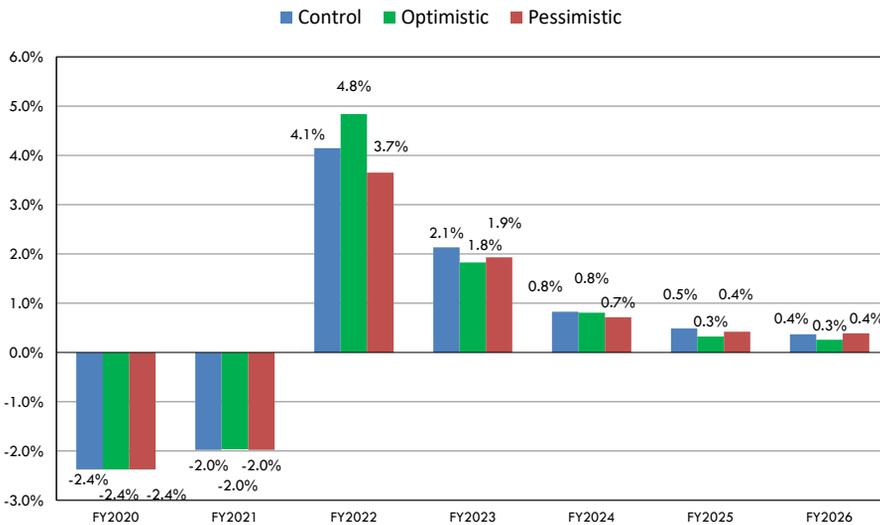
Kentucky Non-Farm Employment (Thousands, KY MAK Model)

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Kentucky Non-Farm Employment Forecasts (KY MAK Model, Fiscal Year Growth Rates)

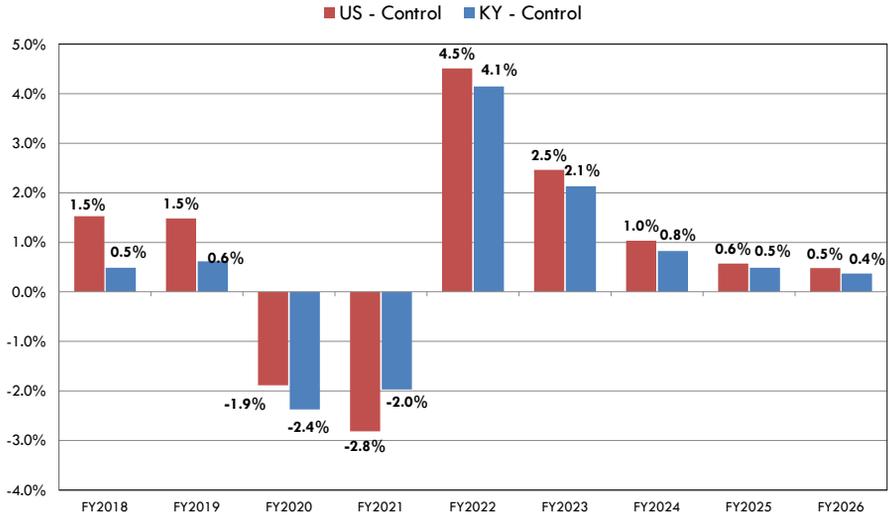
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Non-Farm Employment – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

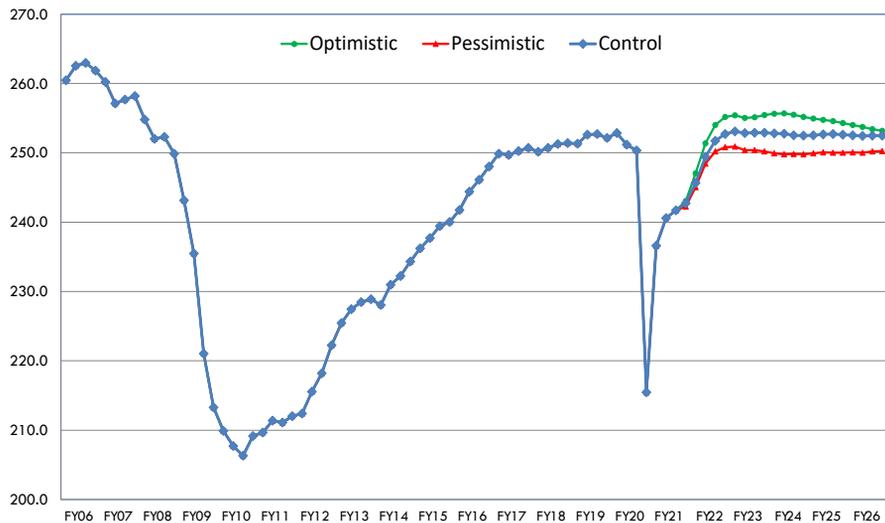
43



Kentucky Manufacturing Employment

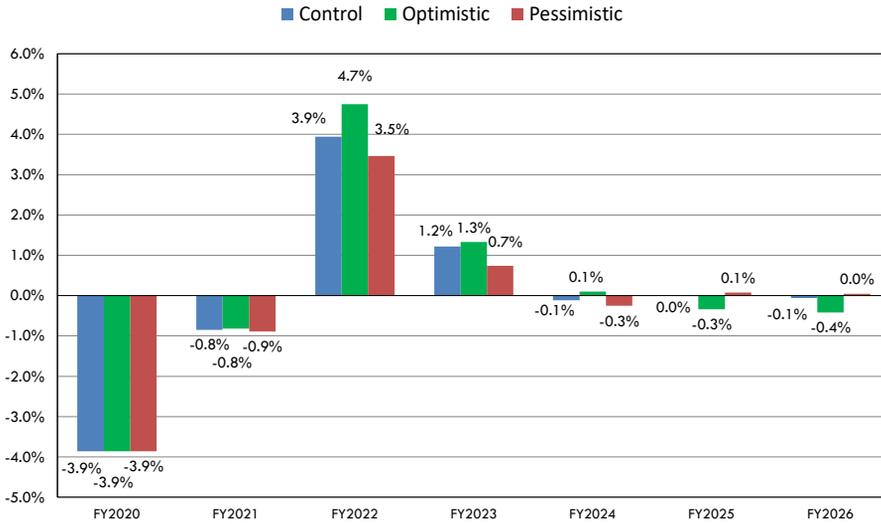
(Thousands, KY MAK Model)

44



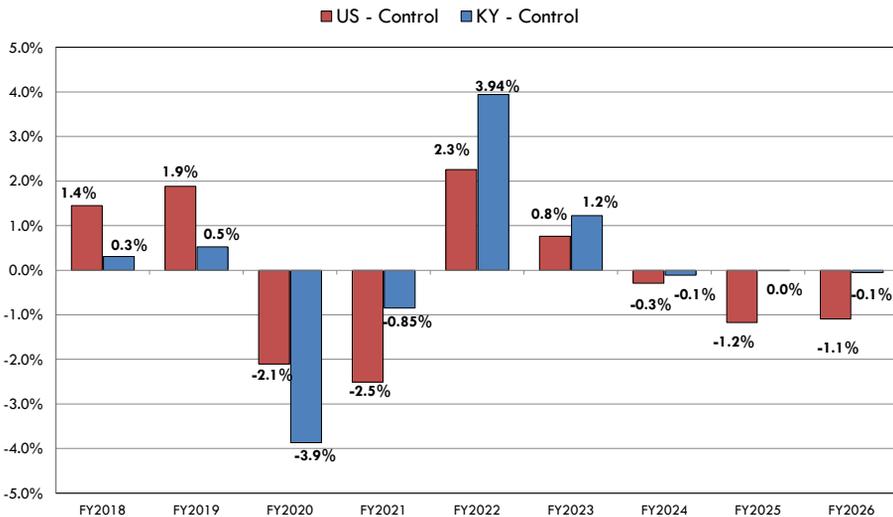
Kentucky Manufacturing Employment Forecasts (KY MAK Model, Fiscal Year Growth Rates)

45



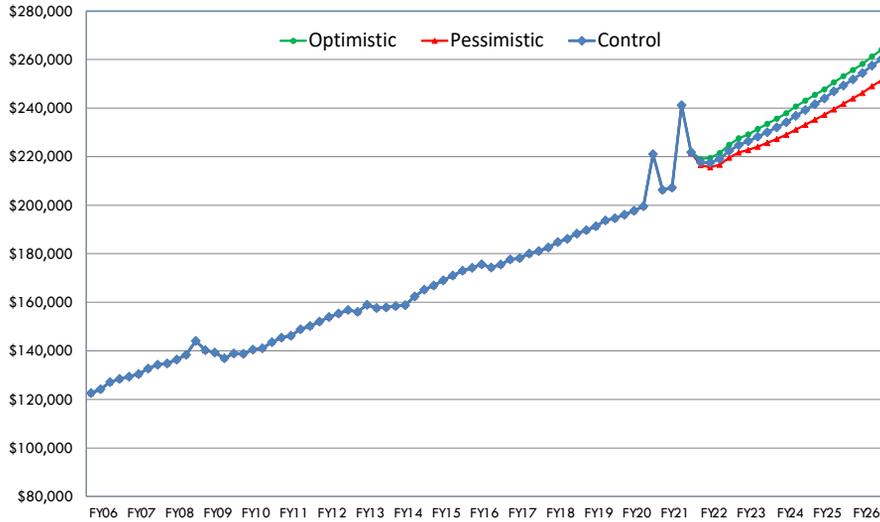
Manufacturing Employment – US and Kentucky (Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

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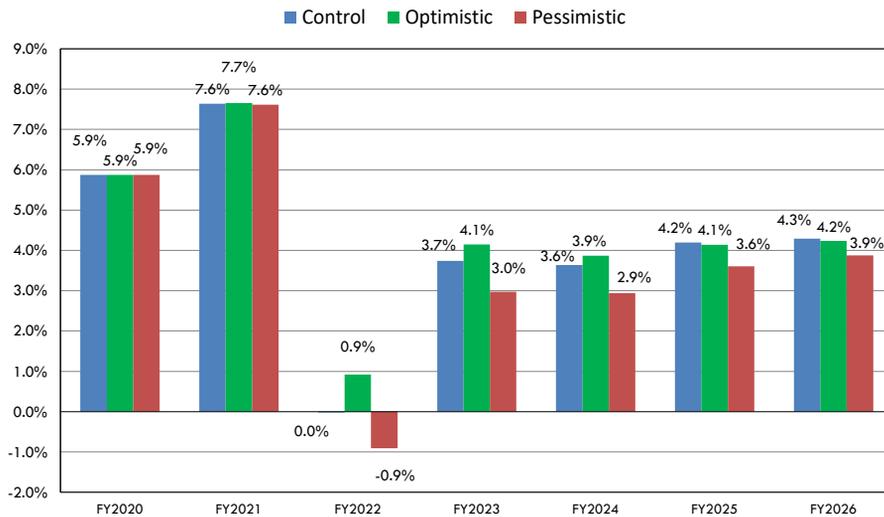
Kentucky Personal Income (Millions of Dollars, KY MAK Model)

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Kentucky Personal Income Forecasts (KY MAK Model, Fiscal Year Growth Rates)

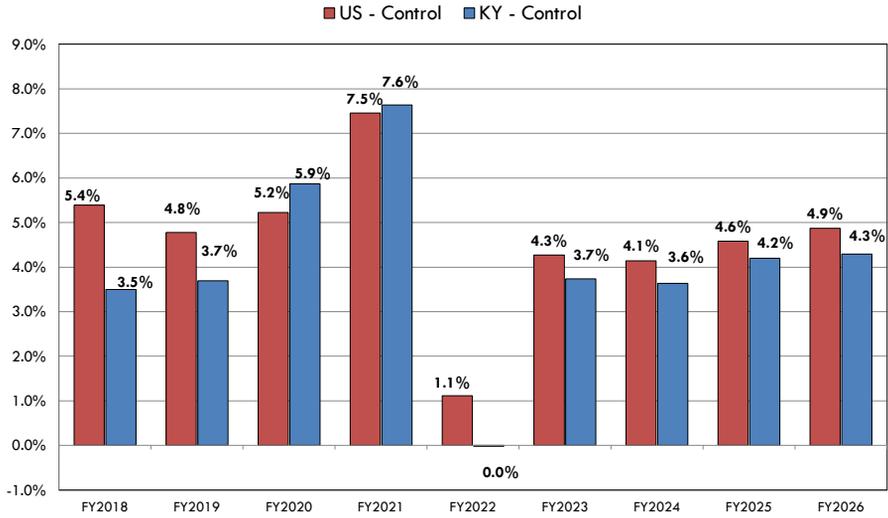
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Personal Income – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

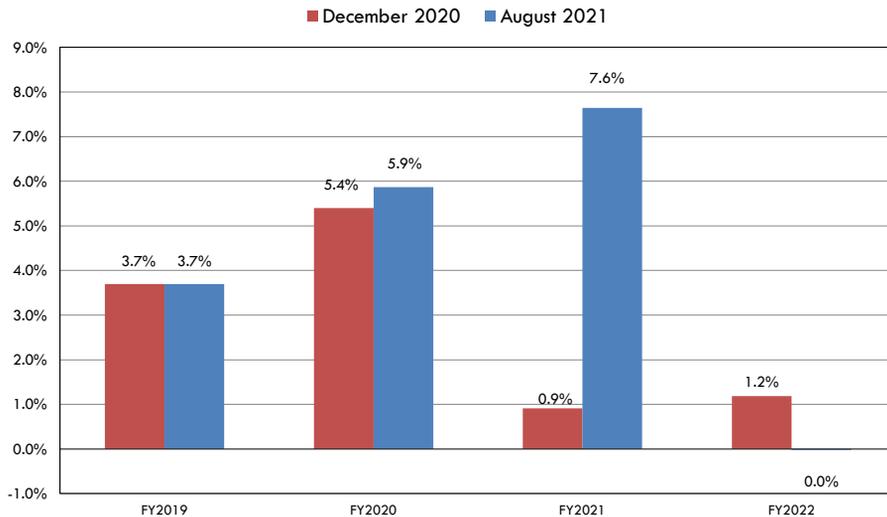
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Kentucky Personal Income Forecasts

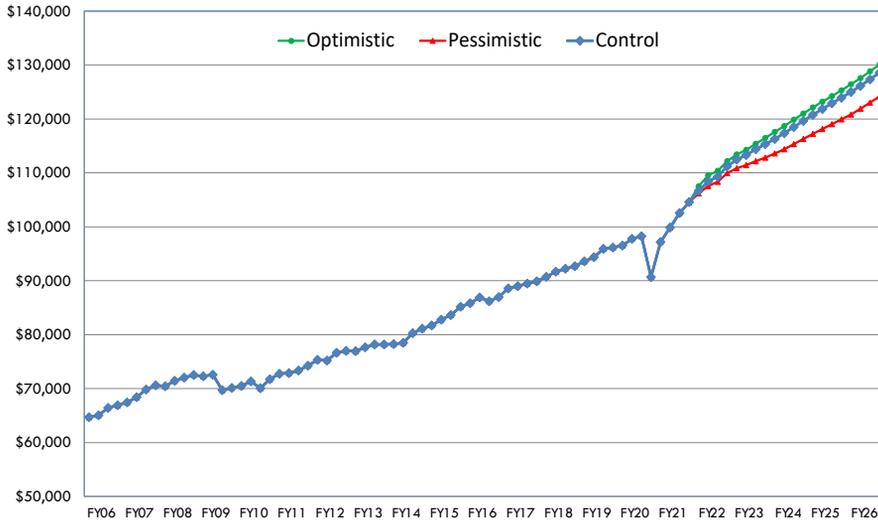
(KY MAK Model, Fiscal Year Growth Rates)

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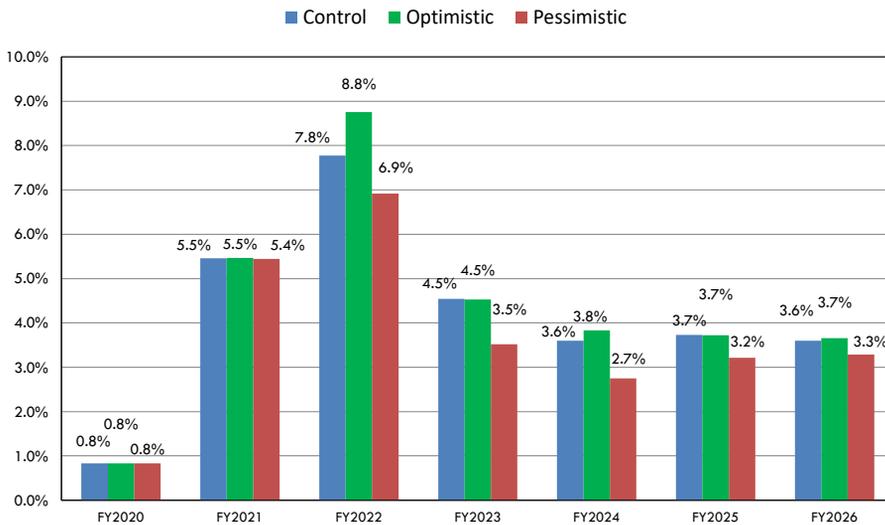
Kentucky Wages and Salaries Forecasts (Millions of Dollars, KY MAK Model)

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Kentucky Wages and Salaries Forecasts (KY MAK Model, Fiscal Year Growth Rates)

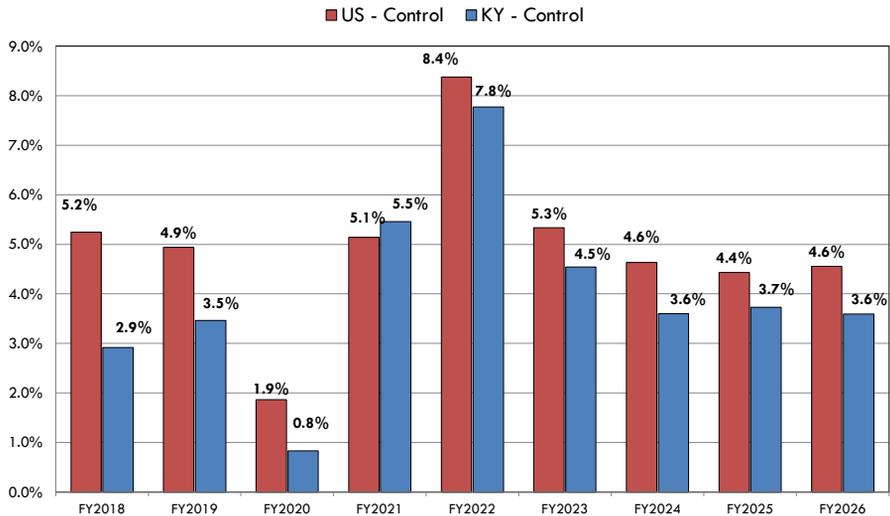
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Wages and Salaries – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

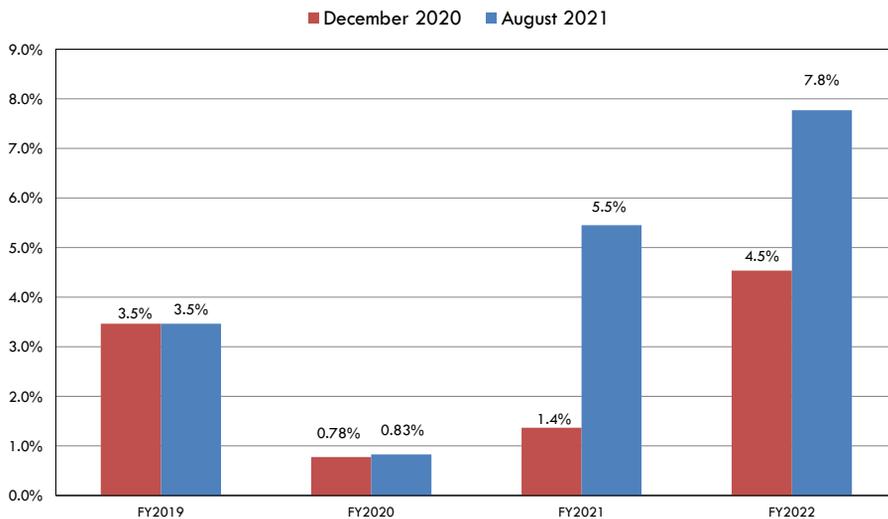
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Kentucky Wages and Salaries Forecasts

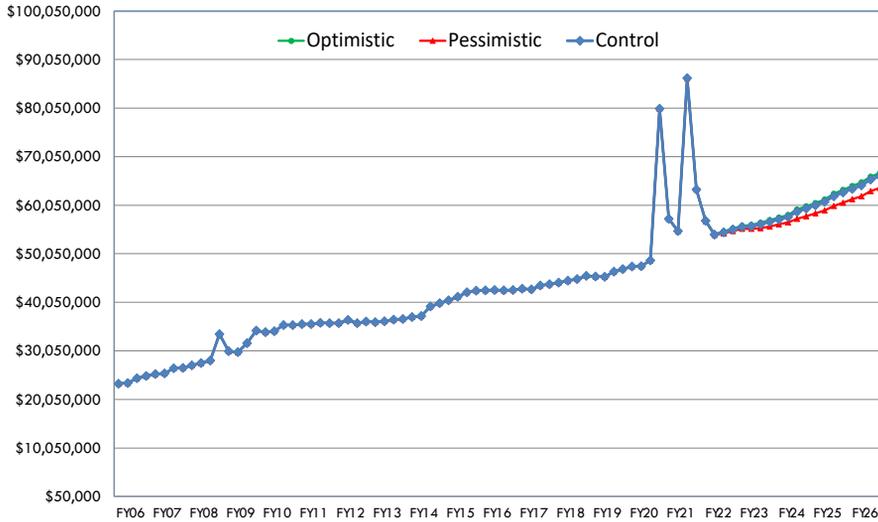
(KY MAK Model, Fiscal Year Growth Rates)

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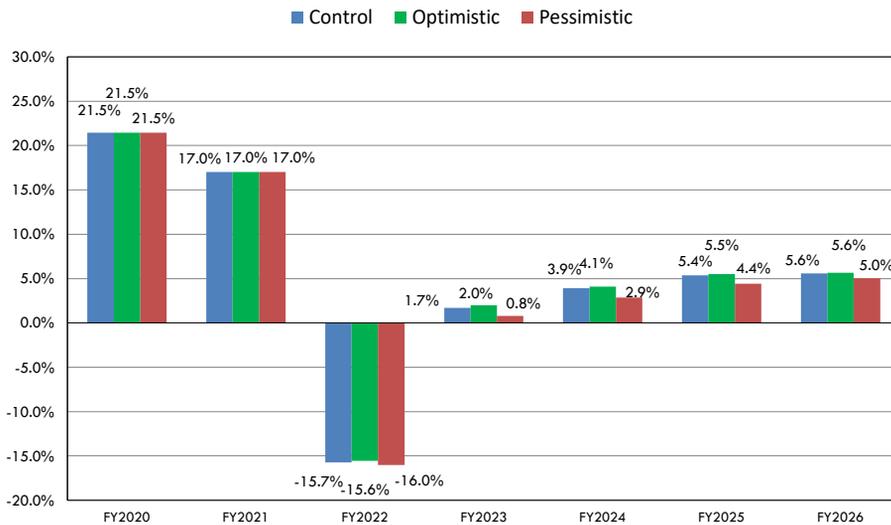
Kentucky Transfer Payments (Millions of Dollars, KY MAK Model)

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Kentucky Transfer Payments Forecasts (KY MAK Model, Fiscal Year Growth Rates)

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Kentucky Transfer Payments Forecasts

(KY MAK Model, Fiscal Year Growth Rates)

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